

Message Text

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FM SECSTATE WASHDC

TO USMISSION USUN NEW YORK

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FOR STOTTLEMYER

FOLLOWING REPEAT USMISSION IAEA VIENNA 2887 ACTION SECSTATE,
INFO AEC GERMANTOWN 2 APRIL 1974. QUOTE:

LIMITED OFFICIAL USE IAEA VIENNA 2887

E.O. 11652: N/A

TAGS: AORG, AFIN, IAEA

SUBJECT: IAEA CY 1975 BUDGET-EFFECTS OF CURRENCY
INSTABILITY

REF: (A) STATE 39239 (B) IAEA VIENNA 1859

(C) IAEA VIENNA 2762

1. SUMMARY: DROP OF PREVAILING US DOLLAR/AUSTRIAN
SCHILLING EXCHANGE RATE OF ABOUT 10.8 PER CENT SINCE
BUDGET ORIGINALLY COSTED HAS PRODUCED GROWING CONSENSUS
THAT SOME MEASURES MUST BE DECIDED UPON BY A&B COMMITTEE
ON APRIL 8 TO DEAL WITH SERIOUS BUDGETARY INSUFFICIENCY
WHILE PRECLUDING REQUIREMENT FOR SUPPLEMENTAL DURING
1975. VIABLE OPTIONS LEFT OPEN AT THIS POINT APPEAR
TO BE SIMPLE INCREASE BY AMOUNT OF INSUFFICIENCY IN
DOLLAR APPROPRIATIONS, OR REPEAT OF CONTINGENT
FINANCING APPROPRIATION USED FOR 1974 BUDGET. IN
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MISSION OPINION, LATTER REMAINS MORE DESIREABLE OPTION
FOR US INTERESTS, AND MISSION RECOMMENDS US RECONSIDER
POSITION IN ORDER HEAD OFF SIMPLE INCREASE IN BUDGET
OR OTHER, AND POSSIBLY MORE RADICAL, MEASURES BY

COMMITTEE. ACTION REQUESTED: INSTRUCTIONS FOR A&B
COMMITTEE MEETING. END SUMMARY.

2. UN EXCHANGE RATE FOR US DOLLAR AGAINST AUSTRIAN
SCHILLING HAS DROPPED AGAIN TO AS 18.85 TO US \$1.00
AS OF APRIL 1. BANK BUYING RATE IN VIENNA, AT WHICH
AGENCY COULD HAVE PURCHASED SCHILLINGS, WAS EVEN WORSE
AT AS 18.74 TO \$1.00 AS OF 10:00 AM APRIL 1. (FYI:
US EMBASSY CASHIER'S RATE ON SAME DATE WAS AS 18.60
TO \$1.00 END FYI.) SECRETARIAT PRELIMINARY ANALYSIS
SHOWS POTENTIAL CONSEQUENT INSUFFICIENCY IN 1975 BUDGET
ESTIMATES CONTAINED GOV/1656 (WHICH WERE
CALCULATED AT RATE OF AS 21.00 TO \$1.00) OF ROUGHLY
\$2.8-MILLION. SECRETARIAT FURTHER ADVISES THAT STEADY
AND UNINTERRUPTED THREE-MONTH DECLINE IN EXCHANGE RATE
HAS PROVOKED LARGE NUMBER OF OTHER MISSIONS TO INQUIRE
ABOUT EXTENT OF IMPACT ON 1975 BUDGET LEVELS;
SECRETARIAT HAS SUPPLIED THEM WITH SAME FIGURE.

3. SINCE DISPATCH REF C, CONSULTATIONS BY MISSION
AND SECRETARIAT HAVE DISCLOSED GROWING CONVICTION AMONG
PERMANENT MISSIONS THAT SOME STEPS MUST BE DECIDED UPON
AT A&B COMMITTEE ON APRIL 8 TO TAKE ACCOUNT OF ABOVE
INSUFFICIENCY IN BUDGET ESTIMATES. (MEMBERS OF A&B
COMMITTEE CONSULTED SO FAR INCLUDE, INTER ALIA,
PHILIPPINES, INDIA, INDONESIA, UK, USSR, SWEDEN, JAPAN,
CANADA.) THERE IS UNANIMOUS CONVICTION THAT SIMPLY
DOING NOTHING AND UTILIZING SUPPLEMENTAL DURING 1975
IS NOT RPT NOT VIABLE OPTION, EITHER FOR OTHER MEMBERS'
DOMESTIC BUDGETARY PROCESSES OR TO ASSURE FULL IMPLEMENTATION
OF AGENCY PROGRAM FOR 1975. FURTHER, SEVERAL TAKE
POSITION THAT FOR A&B COMMITTEE TO FAIL TO TAKE
ACCOUNT OF PROBLEM WHICH NOT MERELY COMING, BUT HERE,
WOULD BE DEFAULT ON COMMITTEE AND BOARD RESPONSIBILITY
TO PROVIDE SUFFICIENT INSURANCE IN BUDGET FOR IMPLE-
MENTATION OF PROGRAM IT PROPOSES; THEY WILL ALMOST
CERTAINLY SAY SO AT COMMITTEE AND CALL FOR SOME ACTION.
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SO FAR, THERE IS NO RPT NO GENERAL CONSENSUS ON PROPER
MEASURES WHICH SHOULD BE ADOPTED, BUT DISPOSITION SEEMS
TO BE THAT IF DG DOES NOT SUGGEST SOMETHING TO COMMITTEE,
COMMITTEE SHOULD SUGGEST SOMETHING TO DG AND DIRECT HIM TO
MODIFY BUDGET ACCORDINGLY BEFORE JUNE BOARD.

4. SO FAR, THERE HAS BEEN NO GROUNDSWELL IN FAVOR OF
RADICAL MEASURE SUCH AS CHANGE IN CURRENCY OF PAYMENT
OR ASSESSMENT OF BUDGET; MOST MEMBERS SEEM DISPOSED
TO AWAIT RESULTS OF UN WORKING GROUP ON CURRENCY
INSTABILITY BEFORE MAKING BINDING DECISIONS OF SUCH
FAR-REACHING NATURE, PROVIDING SOME INTERIM MEASURE

CAN BE FOUND TO COPE WITH IMMEDIATE IAEA 1975 SITUATION
IN MEANTIME.

5. OPTIONS NOW OPEN TO DG APPEAR TO BE REDUCED TO TWO?
FIRST, BUDGET COULD SIMPLY BE INCREASED BY AMOUNT OF
PROJECTED INSUFFICIENCY AT CURRENT EXCHANGE RATE, WITH
THIS AMOUNT INCLUDED AS SINGLE-LINE ADDITION AT JUNE
BOARD AND, IF PHYSICALLY POSSIBLE, DISTRIBUTED TO
SEPARATE PROGRAM COST FIGURES IN FINAL DOCUMENT PRESENTED
TO GC. THIS AMOUNTS TO RECASTING OF BUDGET AT NEW AND
LOWER EXCHANGE RATE. SECOND, CONTINGENT FINANCING
APPROPRIATION, SUCH AS THAT USED IN 1974 BUDGET, COULD
BE INCLUDED FOR 1975 IN AMOUNT OF PROJECTED INSUFFICIENCY
AT CURRENT EXCHANGE RATE, SUBJECT TO SAME CONDITIONS AS
IN 1975, I.E., FUNDS COULD BE UTILIZED BY DG ONLY WITH
PRIOR CONSENT OF BOARD AND ONLY TO COMPENSATE FOR IN-
SUFFICIENCIES DUE TO DECREASE IN EXCHANGE RATE FROM
THAT AT WHICH BUDGET CALCULATED, UNUTILIZED BALANCE
(IF ANY) WOULD BE RETURNED TO MEMBERS AS CREDIT AGAINST
SUBSEQUENT YEAR'S ASSESSMENT IF NOT REQUIRED DURING
1975, AND DG WOULD COMMIT HIMSELF NOT RPT NOT TO
REQUEST ANY SUPPLEMENTAL IN 1975 FOR THIS PURPOSE.

6. SOME MEMBERS HAVE TENTATIVELY INDICATED THAT THEY
FAVOR FIRST APPROACH (IN FACT, INDIAN AMBASSADOR
SUGGESTED THAT SIMILAR PROVISION SHOULD ALSO BE MADE
FOR SUBSTANTIAL PROJECTED RATE OF INFLATIONARY COST
INCREASES FOR 1975, IN ORDER AVOID SUPPLEMENTAL. DG WILL RETURN
TO OFFICE ON APRIL 3, AND HIS OPINION NOT YET KNOWN, BUT SEC-
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SECRETARIAT IS NOW INCLINED TO FAVOR SECOND APPROACH FOR FOLLOW-
ING REASONS: A) IT RETAINS BOARD CONTROL OVER FUNDS UNTIL
REQUIREMENT FOR THEM DEVELOPS, MAINTAINING TRADITIONAL
ROLE OF BOARD AS EXECUTIVE HEAD OF IAEA, AND IS
THUS LIKELY TO BE MORE ACCEPTABLE TO SOME MEMBERS WHO
WOULD OBJECT TO GIVING DG BLANK CHECK ON BASIS CURRENT
INCOMPLETE KNOWLEDGE OF PROBABLE 1975 EXCHANGE SITUATION;
B) IT PROTECTS DG FROM PRESSURE (FROM LDC'S OR OTHERS)
TO USE FUNDS FOR OTHER PURPOSES IN EVENT THEY NOT
REQUIRED TO COMPENSATE FOR CURRENCY PROBLEM DUE TO ANY
RECOVERY OF DOLLAR AGAINST SCHILLING BEFORE 1975;
C) IT IS MUCH MORE POSSIBLE TO DO DEFENSIBLE JOB OF
JUSTIFYING SUCH APPROPRIATION TO GC, IN FACE OF FLUCTUATING
EXCHANGE RATE, THAN WOULD BE CASE IF THERE WERE SIMPLE
RECASTING OF ENTIRE BUDGET AND DOLLAR RECOVERED AGAINST
SCHILLING BEFORE GC.

7. ONLY STUMBLING BLOCK NOW EXISTING TO VIRTUALLY
UNANIMOUS SECRETARIAT RECOMMENDATION THAT DG SUGGEST
THAT COMMITTEE TAKE CONTINGENT FINANCING APPROACH IS

SECRETARIAT AWARENESS OF US POSITION REF A ON QUESTION OF SUCH APPROPRIATION. SECRETARIAT STRESSES THAT THEY WOULD LIKE TO TAKE ACCOUNT OF US VIEWS, AND HAVE TRIED TO DO SO FOR PAST MONTH IN FACE STEADILY DROPPING EXCHANGE RATE AND GROWING UNEASINESS AMONG OTHER MEMBERS, BUT THEIR OPTION TO CONTINUE TO DO THIS IS RAPDILY DISAPPEARING, AND IF PUSH CAME TO SHOVE THEY WOULD SUGGEST THAT DG RECOMMEND CONTINGENT FINANCING APPROPRIATION BEFORE SUGGESTING THAT HE ASK COMMITTEE FOR BLANK CHECK IN FORM OF STRAIGHT GENERAL INCREASE IN DRAFT APPROPRIATIONS BASED ON APRIL EXCHANGE RATE. SECRETARIAT (ENNOR) HAS ACCORDINGLY INQUIRED WHETHER US WOULD NOW BE WILLING TO ACCEPT AND SUPPORT CONTINGENT FINANCING APPROACH, WITH ADDITIONAL PROTECTION WHICH IT OFFERS TO MAJOR CONTRIBUTORS' MONEY, TO STAVE OFF COMMITTEE DIRECTION THAT DG SIMPLY INCREASE OVERALL BUDGET LEVELS WITHOUT RESTRICTIONS, OR PERHAPS EVEN MORE DRASTIC ACTION(SUCH AS APPROPRIATING ALSO FOR PROJECTED INFLATION, OR CHANGING CURRENCY IF SOMEONE SHOULD PROPOSE AND MAKE A SUPERFICIALLY ACCEPTABLE CASE FOR NOT AWAITING UN WORKING GROUP REPORT).

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8. COMMENT: IT IS NOW CLEAR THAT US NO LONGER HAS OPTION OF ASKING SECRETARIAT TO SAY OR DO NOTHING AT ALL ON THIS QUESTION, SINCE, GIVEN NEW LOW FOR 1975 JUST HIT BY EXCHANGE RATE, MEMBERS WILL SAY WHATEVER SECRETARIAT DOES NOT. ONLY CHOICES NOW AVAILABLE LIE BETWEEN INCREASE IN APPROPRIATION WITH RETENTION OF BOARD CONTROL OVER USE OF FUNDS AND WITH USE RESTRICTED AS TO PURPOSE (I.E., CONTINGENT FINANCING), OR INCREASE IN APPROPRIATION WITH NO PARTICULAR BOARD CONTROL RETAINED OVER USE OF FUNDS AND NO WAY OF RESTRICTING PURPOSE (I.E., RECASTING, OR EQUIVALENT). IF US DOES NOT NOW CHOOSE ONE OR OTHER, CHOICE WILL ALMOST CERTAINLY BE MADE FOR US, AND FOR SECRETARIAT AS WELL, BY COMMITTEE.

9. MISSION CONTINUES TO FEEL VERY STRONGLY THAT US'S INTERESTS IN RETAINING MAXIMUM CONTROL OVER FUNDS TO COVER THIS INSUFFICIENCY (OF WHICH WE WILL PAY VERY SUBSTANTIAL SHARE FROM US TAXPAYERS'S MONEY) POINT VERY CLEARLY TO PREFERENCE FOR CONTINGENT FINANCING APPROPRIATION OVER ANY OTHER MEASURE. IF, AS INDICATED REF A, DEPT. FEARS POSSIBLE EFFECT OF PRECEDENT ON OTHER UN AGENCIES (FEAR WHICH SECRETARIAT DOES NOT RPT NOT SHARE IN VIEW TOTAL LACK OF INTEREST BY OTHER AGENCIES IN THIS APPROACH EVIDENCED DURING RECENT GENEVA CCAQ(BF) DISCUSSIONS OF EXCHANGE RATE INSTABILITY PROBLEM) MISSION SUGGESTS THAT PRECEDENTIAL EFFECT COULD BE MINIMIZED BY US STATEMENT TO COMMITTEE CONDITIONING OUR ACCEPTANCE OF APPROACH UPON: 1) CURRENTLY UNPREDICTABLE WORLD EXCHANGE SITUATION,

2) US SPECIAL INTEREST IN PROTECTING IMPLEMENTATION OF IAEA APPROVED PROGRAM FROM EFFECTS OF THIS, 3) UNUSUAL TIMING OF IAEA BUDGETARY APPROVAL CYCLE, WITH GC ACTION COMING IN FALL RATHER THAN SPRING, AND 4) STATEMENT THAT US DOES NOT REGARD THIS CASE AS APPLICABLE TO OTHER UN SYSTEM ORGANIZATIONS, NOR NECESSARILY TO IAEA IN ANY FUTURE YEAR, AT LEAST PENDING OUTCOME OF UN WORKING GROUP ON THIS PROBLEM AND ANY GENERALLY-APPLICABLE MEASURES WHICH IT MAY SUGGEST AND IN WHICH IAEA WOULD PRESUMABLY FOLLOW LEAD OF REMAINDER OF UN FAMILY.

10. IF FOREGOING ADOPTED, MISSION SEES GOOD CHANCE OF LIMITED OFFICIAL USE
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LINING UP COMMITTEE CONSENSUS IN SUPPORT OF CONTINGENT FINANCING APPROPRIATION AGAINST OTHER ALTERNATIVES. IF NOT, MISSION FEELS THAT CHANCES OF PREVENTING AT LEAST UNRESTRICTED ADDITION OF REQUIRED AMOUNT TO BUDGET, AND PERHAPS OTHER MEASURES AS WELL, ARE NOT RPT NOT GOOD. ACCORDINGLY, MISSION RECOMMENDS THAT US RECONSIDER GUIDANCE PROVIDED REF A AND TAKE POSITION FAVORING INSERTION OF APPROPRIATELY-SIZED CONTINGENT FINANCING APPROPRIATION IN 1975 BUDGET BY A&B COMMITTEE.

11. ACTION REQUESTED: INSTRUCTIONS FOR A&B COMMITTEE MEETING APRIL 8. PORTER

UNQUOTE RUSH

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